DOCUMENT RESUME

ED 434 561 HE 032 288

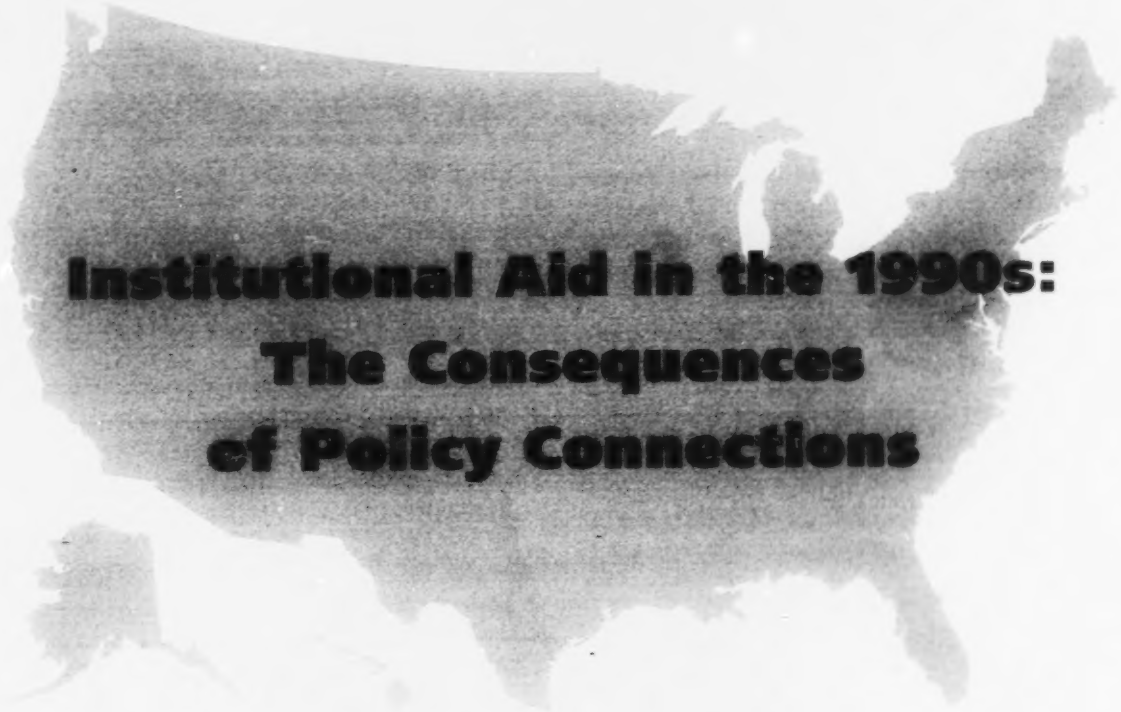
AUTHOR	Reindl, Travis; Redd, Kenneth
TITLE	Institutional Aid in the 1990s: The Consequences of Policy Connections.
INSTITUTION	Sallie Mae, Reston, VA.
PUB DATE	1999-00-00
NOTE	13p.
AVAILABLE FROM	Sallie Mae, 11600 Sallie Mae Drive, Reston, VA 20193; Tel: 703-810-7158; Web site: <http://www.salliemae.com>.
PUB TYPE	Information Analyses (070)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	*Colleges; Educational Finance; *Educational Policy; Educational Trends; Federal Aid; Federal Legislation; Federal Programs; *Grants; Higher Education; *Institutional Role; Merit Scholarships; Need Analysis (Student Financial Aid); Private Colleges; Public Colleges; Public Policy; *Scholarships; Selective Colleges; State Aid; State Legislation; *Student Financial Aid; Universities
IDENTIFIERS	Family Education Loan Program; Higher Education Act Amendments 1992

ABSTRACT

This report discusses the policy implications of the increasing role played by grants provided by colleges and universities as a source of financial aid for students and their families. It underscores the direct and indirect connections between changes in federal and state policy and institutions' aid programs, focusing on the effects of the Higher Education Act Amendments of 1992 (including changes in need analysis and the advent of unsubsidized Stafford loans), slowed funding of federal grant programs, and increases in merit-based aid at the federal and state level. The report notes that between 1990 and 1996, the amount of scholarship and grant aid provided by public and private four-year institutions jumped from $4.7 billion to $8 billion. Among public colleges and universities, the selective and highly selective institutions provided the largest increases in aid. For private colleges and universities, however, institutional grant aid increased by the largest amounts at the less selective institutions. The report notes that aid increases at public and private institutions have been much greater than increases in spending for instruction, student services, maintenance of school facilities, and other general and educational expenditures. (Contains 23 references.) (MDM)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED 434 561



Institutional Aid in the 1990s: The Consequences of Policy Connections

Travis Reindl
Policy Analyst
American Association of State Colleges and Universities
&
Kenneth Redd
Senior Research Associate
Education and Student Loan Research
Sallie Mae, Inc.

BEST COPY AVAILABLE

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☑ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

PERMISSION TO REPRODUCE AND DISSEMINATE THIS MATERIAL HAS BEEN GRANTED BY
K. REDD
TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

HE 032 288

Institutional Aid in the 1990s: The Consequences of Policy Connections

During the 1990s, grants provided by colleges and universities have become an increasingly important source of financial aid for students and their families. Aid provided by public and private four-year institutions rose 70 percent (adjusted for inflation) between Fiscal Year 1990 (FY90) and Fiscal Year 1996 (FY96), from $4.7 billion to $8 billion. Institutional aid has also become a larger part of the total financial aid picture, increasing from 14 percent of financial aid awarded from all sources in 1989-90 to 18 percent just six years later. By contrast, inflation-adjusted funding for the Pell grant (the largest federal grant program for low-income college students) fell 3 percent during the same period.[1]

Policy discussions surrounding institutional aid programs have historically focused on highly selective private colleges and universities, but selective public institutions and less selective private colleges have also significantly increased their aid spending in recent years. Earlier studies have suggested that public colleges and universities increased their institutional aid to increase the number of accepted freshman applicants enrolling, thereby increasing total revenue.[2] In more recent times, however, public and private institutions have used their aid programs for a wide variety of purposes, and the uses of grant aid often vary by the admissions selectivity of the institution.

The following analysis examines institutional aid as part of a complex and evolving system of student financial assistance. It underscores the direct and indirect connections between changes in federal and state policy and institutions' aid programs, as well as campus responses to these external factors in terms of overall spending and distribution of awards. Finally, it poses a number of probing questions for campus leaders regarding the future shape of their aid efforts in the face of a shifting policy landscape.

Policy Context

Overview

The policy environment surrounding colleges and universities and their aid programs is an essential factor to consider in any analysis of institutional aid. It affects the roles played by such aid, the types of potential recipients, and even the form of awards. The past several years have brought both philosophical and structural changes in federal and state approaches to student financial assistance, which have undoubtedly affected institutional aid programming.

Financial aid offered by higher education institutions has historically played two primary roles:

- **Educational Benefit**–Aid is awarded to fulfill objectives such as providing access for lower income students or increasing the participation of historically underrepresented groups.

- **Marketing Tool**–Aid is awarded to make the institution more attractive to prospective students and their families. This can take the form of incentive scholarships for "the best and the brightest" or "last dollar" tuition discounts for academically attractive middle income students to increase enrollment and thus institutional revenue.[3]

Over the years, institutional emphasis on these roles has shifted in response to a variety of external forces. For many public colleges and universities, aggressive marketing and recruitment efforts involving aid are a relatively recent phenomenon. Such efforts, however, must be reconciled with the

historic commitment of these institutions to maintain broad access to higher education. For a number of private institutions, the practice of tuition discounting has become an increasingly important part of their institutional aid program. This practice, however, has also been the subject of considerable debate related to its distributive fairness and fiscal prudence.[4] For all institutions, rising tuition and fee charges have pushed affordability for middle income students to the top of the policy agenda. Pursuing this objective, however, brings with it the maintenance of commitments to basic access for low-income students, especially as the number of traditional-aged and aid-eligible students increases.

In the 1990s, the emphasis of federal and state policy has shifted from public financing of higher education (via appropriations and grants) to student funding (via higher tuition and borrowing). Additionally, the focus of state student aid is increasingly moving from need-based criteria for awarding aid to merit-based criteria. These trends have had an impact on student and family expectations regarding institutional aid and will likely place more pressure on colleges and universities to assist the growing number of students that are eligible for aid but are not funded to the level of their financial need.

Federal Developments

The federal government, which awards nearly three-quarters of the nation's financial assistance to postsecondary students, made several dramatic changes in its overall aid program during the early and mid-1990s.[5] Many of the changes stem from two major developments:

Higher Education Act* Amendments of 1992

- **Changes in Need Analysis**–The process for determining aid eligibility was changed to exempt home and family farm equity from consideration, as well as all financial assets for any family with annual adjusted gross income of less than $50,000. As a result, significantly more students from middle- and upper-income families became eligible for federal aid.[6] Because nearly 40 percent of state aid programs and a large number of institutional aid programs use the federal need analysis methodology to determine student eligibility for their programs, this change has likely had a significant spillover effect.[7] Recent changes in the distribution of need-based institutional aid by adjusted gross income (see below) appear to confirm this.

- **Advent of Unsubsidized Stafford Loans**–The federal student loan programs, which now comprise more than three-quarters of all federal student aid, expanded to unprecedented dimensions during the 1992 Higher Education Act reauthorization. This included the creation of the unsubsidized loan program, which shifts the responsibility for interest payments during the time of enrollment from the government to the student. This program essentially made all students, regardless of family income, eligible for federal student loans. As a result, federal student loan volume skyrocketed from $18.3 billion in 1992-93 to $34.0 billion in 1998, and the balance between grants and loans shifted from favoring grants to favoring loans.[8]

- **Change in the Income Protection Allowance (IPA)**–This allowance, which exempts a portion of students' earnings in determining aid eligibility, was lowered in the 1992 reauthorization to $1,750 for dependent students and $3,000 for single, independent students.[9] This change rendered thousands of students ineligible for Pell grants, sending many of them into the federal loan programs and perhaps increasing their expectation of institutional awards.**

Slowed Funding of Federal Grant Programs

Escalating loan volume during this period was matched by slumping expenditures and purchasing power in grant programs. The average Pell grant, which covered 31 percent of tuition and fees/room and board at public four-year (non-doctoral) institutions in 1987-88, covered only 22.2 percent of the same expenses by 1997-98. Additionally, the reduction of the maximum Pell grant award in 1992-93 (which has since been restored and raised) sent a signal to states and institutions regarding federal grant priorities. Similarly, appropriations for the Supplemental Educational Opportunity Grant (SEOG–a federal program that provides assistance to students with financial need beyond their Pell grant eligibility) barely kept pace with inflation between 1987-88 and 1997-98, while the State Student Incentive Grant (SSIG) program saw its funding slashed by more than half over this period.[10]

As a result of changes in federal aid policies, more students became eligible for need-based aid at the same time that less

---

* The Higher Education Act (HEA) is the federal law that governs the major federal student aid programs. It is reauthorized at five- to six-year intervals.

**The IPA was raised to $2,200 for dependent students and $5,000 for single independent students in the 1998 HEA reauthorization. The allowance will also now be indexed annually for inflation.

federal grant aid was being made available. This phenomenon likely increased expectations by students and their families, particularly those just beyond the eligibility threshold for federal grants, that they would qualify for some form of institutional award. This shift in expectations could have far-reaching implications for colleges and universities at all levels of selectivity, but especially for those with less extensive aid programs.

State Developments

During the early and mid-1990s, state higher education and student aid policy was changing as well. Appropriations for public colleges and universities were on a rollercoaster ride, with recession-induced budget slashing followed by big spending in the succeeding recovery. These budget woes were offset virtually dollar-for-dollar at public institutions by increases in tuition and other student charges. The hikes seriously raised the profile of college affordability concerns among policymakers and the general public, particularly in relation to middle income students eligible for little or no need-based grant aid. At the same time, increased workforce mobility and the soaring value of intellectual capital have raised statehouse concerns over where talented resident students are going for their postsecondary education and where they end up when they finish. The combination of these and other forces has led to increased state emphasis on merit-based scholarships and grants, especially those providing academic performance incentives or those aiming to stanch a state's perceived "brain drain."

- Between 1995-96 and 1996-97, states increased their spending on need-based aid programs by only 5 percent but boosted their spending on non-need-based programs by 12 percent.

- Between 1990-91 and 1996-97, the share of total state student aid comprised by need-based programs lost three percentage points to programs governed based on non-need criteria.[11]

The roots of this trend can be traced to Georgia, which inaugurated the Helping Outstanding Pupils Educationally (HOPE) Scholarship Program in 1993. Under HOPE, Georgia students who maintain a B average or better in their collegiate studies are entitled to partial or full tuition scholarships at the state's public colleges and universities. The "HOPE phenomenon" has spread to numerous states and a federal adaptation of the program was adopted as part of the Taxpayer Relief Act of 1997. In 1997-98, 13 states reported approving some form of merit scholarship program and several other states considered such programs.[12] These programs include:

- **Maryland Science and Technology Scholarship Program (1998)**–Awards up to $3,000 per year will go to students with a high school grade point average of 3.0 or higher who seek degrees in high demand fields defined by the Maryland Higher Education Commission. Students must maintain a 3.0 grade point average in their collegiate studies to renew the award.

- **Kentucky Educational Excellence Scholarships (1998)**–Eligibility for this program is based on the student's performance in each year of high school, with the amount of the award varying by the annual grade point average.

- **South Carolina Legislative Incentives for Future Excellence (1998)**–Awards of up to $2,000 will be given to students with a high school grade point average of 3.0 or higher and an SAT score (or equivalent) of at least 1,000. Renewal of the award requires completion of at least 30 credit hours per year and a grade point average of 3.0 or higher.[13]

Regardless of their particular provisions, the new wave of merit-based aid programs has been the subject of considerable debate. Policy analysts and politicians alike spar over whether or not these programs can meet their stated objectives or whether their stated objectives are appropriate public policy goals. In any event, this movement shows no sign of subsiding in the immediate future–state student aid has been labeled a key higher education issue for 1999 legislative sessions in 17 states, with most of those states taking up proposals for merit-based grants.[14] Such a movement also raises interesting questions regarding the future scope and structure of need-based state aid programs, and thus the extent and emphasis of institutional grant efforts.

Institutional Aid Trends

The shifts in federal and state student aid policies during the early- and mid-1990s appear to have contributed to the growth in institution-funded grant aid at both public and private four-year colleges and universities, according to data from the U.S. Department of Education's Integrated Postsecondary Education Data System (IPEDS).[15]

Overall Trends

- From FY90 to FY96, the amount of scholarships and fellowships provided by public colleges and universities jumped by 72 percent in inflation-adjusted value, from $1 billion to $1.7 billion. [See Table 1]

- At private colleges and universities, institutional aid spending increased by 69 percent over the same period, from $3.7 billion to $6.3 billion.

Aid Trends by Admissions Selectivity Level

The overall trends mask the differences in aid increases that occurred at the different types of four-year public and private institutions. This is especially true when the differences in aid increases by the institutions' selectivity levels are examined. Table 2 shows the distribution of public and private colleges by their undergraduate admissions selectivity levels.* These levels are drawn from the *1998 Peterson's Guide to Four-Year Colleges*. Figure 1 shows how widely these colleges and universities differed in their increases in institutional grant aid spending.

- Among public colleges and universities, the selective and highly selective institutions provided the largest increases in aid. Collectively, these 53 colleges increased their institutional aid dollars by 85 percent (from $207.9 million to $384.5 million) from FY90 to FY96. At the same time, the open enrollment institutions increased their scholarship and fellowship aid funds by just 68 percent, from $39.6 million to $66.8 million, and aid provided by the moderately selective and minimally selective colleges rose by 69 percent and 67 percent, respectively. The combined amount provided by minimally selective and open enrollment institutions grew by about 68 percent, from $86.9 million to $145.8 million.

- For private colleges and universities, institutional grant aid increased by the largest amounts at the *less selective* institutions. The minimally selective private colleges increased their aid dollars by more than 100 percent ($97.1 million to $196.5 million), while the amount provided by open enrollment institutions rose by 62 percent. The highly selective and selective institutions increased their grant dollars by just 54 percent, from $1.8 billion to $2.7 billion.

Differences in aid by admissions selectivity are important because of the differences in the characteristics of students enrolled at different types of institutions. Generally, students

Table 1

Institutional Aid Provided by Public and Private (nonprofit) Four Year Colleges and Universities Fiscal Year 1990 and Fiscal Year 1996

Type of Institution	Number of Institutions	FY90 Institutional Aid (in thousands)*	FY96 Institutional Aid (in thousands)	Percent Change
Public Four-Year	610	$ 1,019,910	$1,752,470	71.8%
Private Four-Year	1,463	$3,717,930	$ 6,299,932	69.4%
Total	2,073	$4,737,840	$8,052,402	70.0%

*adjusted for inflation (using the Higher Education Price Index [HEPI])
Source: U.S. Department of Education, Integrated Postsecondary Education Data System (IPEDS), Finance Surveys.

Table 2

Undergraduate Admissions Selectivity Levels Public and Private (non-profit) Four-Year Colleges and Universities

Admissions Selectivity Level (Peterson's Guide*)	Definition	Number of of Public Institutions	Number of of Private Institutions
Highly Selective	30 percent or fewer of freshman applicants accepted	6	40
Selective	60 percent or fewer of freshman applicants accepted	47	115
Moderately Selective	85 percent or fewer of freshman applicants accepted	353	716
Minimally Selective	Up to 95 percent of freshman applicants accepted	80	158
Open Enrollment	Virtually all freshman applicants accepted	75	109
Missing		49	325
Total		610	1,463

*Source: 1998 Peterson's Guide to Four-Year Colleges

*Undergraduates received approximately 85 percent of institutional aid awards during the study period.

enrolled at highly selective public and private institutions come from families with higher family income, while those at institutions with less selective admissions criteria tend to come from families with lower income. Thus, the increases in institutional grant aid by selectivity measures may have had a great effect on the type of aid received (need-based versus non-need-based–see "Who Received the Aid?" below for further discussion of this issue) and on the distribution of the aid by the student's income level.

Institutional Aid Compared with Total Educational Expenditures and Revenue

For both public and private institutions, the increases in student financial assistance from FY90 to FY96 were far greater than increases in funding they provided for other education-related expenditures. Aid expenditures also increased at a much faster rate than the increases in colleges' and universities' total educational and general revenue.

Expenditures

- At public institutions, institutional aid spending jumped nearly 72 percent while spending for academic instruction rose by only 4 percent, and expenditures for academic support programs (such as libraries, museums, academic computing support, course and curriculum development) increased by just 9 percent. [See Figure 2] Funds provided for research grew by 14 percent, and expenditures devoted to public service (community service programs and activities) grew by 16 percent. Total educational and general expenditures at public colleges and universities increased by only 9 percent.

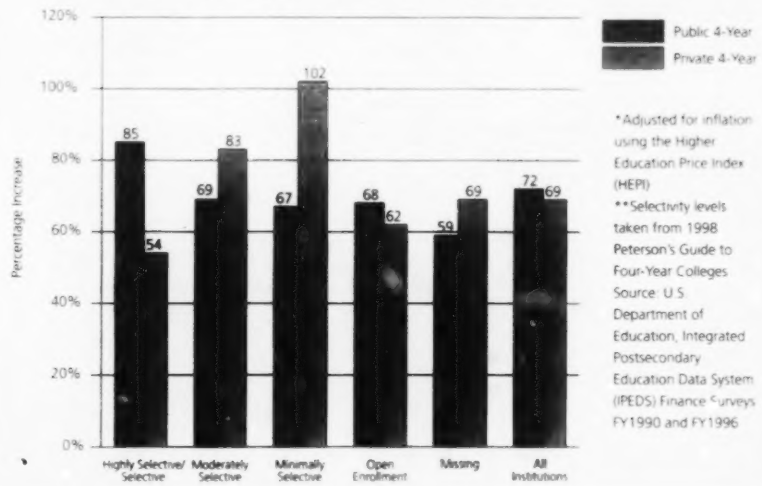
- At private colleges and universities, total expenditures for educational and general operations increased by approximately 23 percent. Funds provided for instruction increased by 21 percent, and academic support funding grew by 24 percent. Expenditures for student services grew by 28 percent, research funds increased by 15 percent, and dollars provided for public service grew by 41 percent.

- At selective and highly selective private colleges and universities, total educational and general expenditures grew by 20 percent. Spending for public service, instruction, and student services increased by more than 10 percent, but amounts for maintenance of college facilities and physical plant increased by just 4 percent. Total spending by selective public colleges and universities rose by 10 percent, but spending for academic instruction and student services at these institutions increased by just 5 percent and 3 percent, respectively.

- Spending increases were much more dramatic at the open enrollment and minimally selective public and private institutions. At the private institutions, amounts devoted to public service jumped by 76 percent, while research expenditures grew by 75 percent and instruction expenditures rose 40 percent. At public colleges and universities, research and public service expenditures grew by 25 percent and 27 percent respectively, but spending for plant maintenance increased by only 5 percent.

Figure 1

Increases* in Institutional Aid at Public and Private Four-Year Institutions, by Undergraduate Admissions Selectivity, FY 1990 to FY 1996**



Revenue

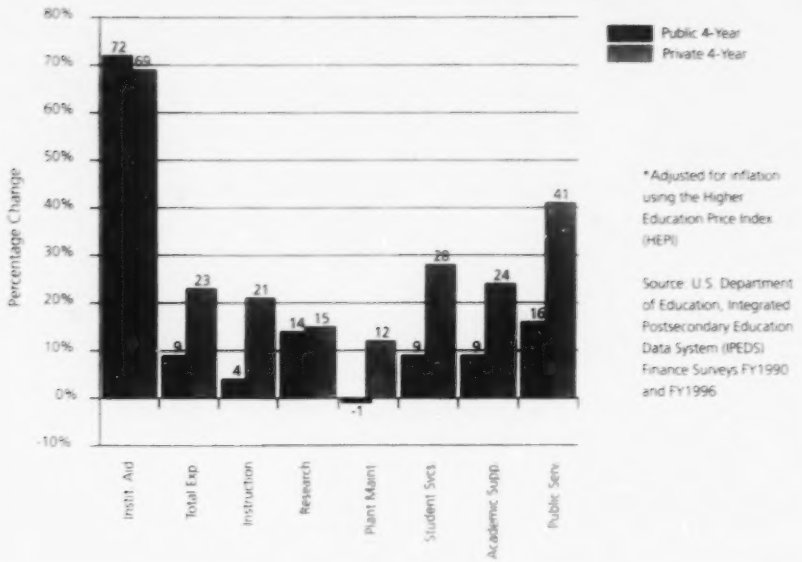
- Figure 3 shows that for all public four-year colleges and universities, the increases in institutional aid came at the same time that total educational and general revenue (funding used by higher education institutions to finance their basic educational operations) increased by only 8 percent in inflation-adjusted value. State aid (a combination of state appropriations, grants, and contracts) to public institutions fell by 7 percent. At the same time, tuition and fee revenue rose by 34 percent, aid from private (non-governmental) sources increased

BEST COPY AVAILABLE

by 19 percent, and endowment income grew by 41 percent. These trends suggest that public colleges and universities, which normally receive the largest share of their revenue from state government sources, became much more dependent on other revenue sources to fund their basic operations and, perhaps, their institutional aid increases.

Figure 2

Changes* in Educational and General Expenditures by Area, Public and Private Four-Year Institutions, Fiscal Year 1990 to Fiscal Year 1996

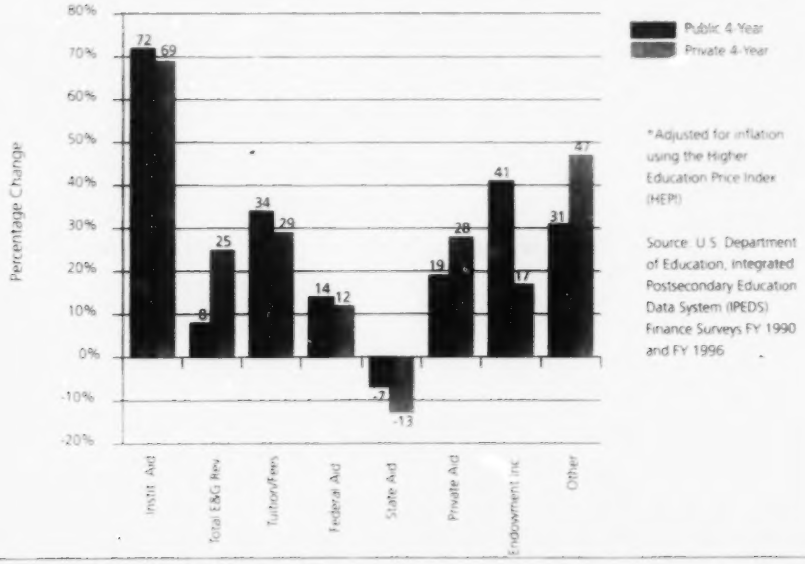


*Adjusted for inflation using the Higher Education Price Index (HEPI)

Source: U.S. Department of Education, Integrated Postsecondary Education Data System (IPEDS) Finance Surveys FY1990 and FY1996

Figure 3

Changes* in Institutional Aid Spending Compared with Change in Educational and General Revenue, Public and Private Four-Year Institutions, Fiscal Year 1990 to Fiscal Year 1996



*Adjusted for inflation using the Higher Education Price Index (HEPI)

Source: U.S. Department of Education, Integrated Postsecondary Education Data System (IPEDS) Finance Surveys FY 1990 and FY 1996

◆Private colleges and universities, which are much more dependent on tuition and fee revenue to fund their educational and general expenditures,[18] saw their tuition and fee dollars increase by 29 percent, while their endowment income grew by only 17 percent. Aid from state government sources fell by 13 percent, while revenue from the federal government increased by 12 percent. Aid from private, non-governmental sources increased by 28 percent. Total educational and general revenue for private institutions grew by 25 percent.

◆Selective and highly selective public colleges and universities saw their tuition and fee revenue increase by 46 percent, compared to 23 percent for the private institutions. State aid to the public institutions fell by 8 percent, and by 43 percent at the private colleges. Revenue from endowments at public institutions nearly doubled, but their funding from private sources increased by just 11 percent. Conversely, at private colleges and universities, aid from private sources increased 17 percent and endowment income grew by 8 percent.

◆At minimally selective and open enrollment private colleges and universities, the increase in institutional aid was far greater than their increase in education-related revenue. Income from endowments grew 17 percent, while tuition and fee revenue grew by 52 percent. State aid to these private institutions increased by 45 percent, compared to just 5 percent at their public counterparts. At these institutions, tuition revenue grew by

38 percent, aid from private sources grew by 45 percent, and endowment income grew by 26 percent.

It is very clear that public and private institutions have increased their aid dollars at a time when the growth of education-related revenue has slowed. The institutions apparently have been able to accomplish this by reducing their spending increases in other areas, such as academic and student services and facilities maintenance. How long these trends can continue before academic quality and/or fiscal health is threatened is not completely clear. Several researchers have found that public and private institutions can continue to increase their aid budgets as long as the costs for doing so does not exceed the additional revenue gained from enrolling more students.[17] The recent increases in state appropriations for higher education make it more likely that selective and highly selective public colleges and universities will be able to meet this standard. However, this will probably be true only for as long as states continue to enjoy the budget surpluses that have allowed them to increase their support for public higher education.

The future situation for private colleges, particularly less selective institutions, could be much more precarious. In FY96, minimally selective and open enrollment private institutions received 66 percent of their educational and general revenue from tuition and fees. These tuition-dependent institutions have had to increase their aid spending at a time when concerns over rising college costs have made it more difficult for them to increase their tuition revenue by a large enough amount to cover the continuing need for grant aid and fund their other educational and general expenditures.

Who Received the Aid?

Equally as important as questions of how much institutional aid has grown overall or by sector is the question of which students are receiving which type of institutional awards. Data drawn from the U.S. Department of Education's 1990 and 1996 National Postsecondary Student Aid Studies (NPSAS)* reveal different aid trends according to the type of award (need-based versus non-need-based), institutional sector (public versus private), and institutional level (doctoral versus non-doctoral). These trends offer important glimpses into the potential interplay between federal, state, and institutional aid policies, and raise key questions regarding the distribution of institutional awards, especially those based wholly or in part on financial need.

A few explanatory notes relative to this analysis are in order. Because the majority of institutional aid is awarded to dependent undergraduate students, the NPSAS analysis is restricted to this group. Moreover, it is important to note that NPSAS defines need-based aid as "institutional grants that were based entirely on need or partly on need and partly on merit" and non-need-based aid as "institutional grants and scholarships that were based entirely on merit or other circumstances not related to need." Finally, total enrollment and enrollment by family income level changed little during the period of study.

Need-Based Grants

- **General**–The percentage of dependent undergraduate students receiving need-based institutional aid increased markedly between 1989-90 and 1995-96 at both public and private four-year colleges and universities, as Figure 4 indicates. This owes in part to the change in federal aid eligibility standards discussed above, and will be demonstrated more concretely below.

  In percentage terms, the average need-based award (constant dollars) increased far more in the public sector between 1989-90 and 1995-96 than in the private sector (68.2 percent versus 22 percent). In dollar terms, however, the increases were more similar. For these awards, then, the early 1990s have been a case of more students receiving larger awards. Exactly which students received these funds, however, will be discussed in more detail below.

- **Aid by Institutional Level**–Because NPSAS:90 did not include the Carnegie classification of participating institutions (a rough proxy for admissions selectivity), an even rougher approximation–that of institutional level–was used. It is still a very instructive distinction, however, particularly for understanding different aid trends between public and private institutions. In the public sector, the percentage of dependent undergraduates receiving need-based awards grew more at doctoral institutions than at non-doctoral institutions between 1989-90 and 1995-96 (3.8 percent to 9 percent at non-doctoral institutions versus 4.9 percent to 14.4 percent at doctoral institutions). There was no such disparity in the private sector, where participation increased by nearly the same amount at both institutional levels (27.3

*NPSAS is a survey of undergraduate, graduate, and professional students that measures the types and sources of financial aid they receive.

percent to 45.2 percent at doctoral institutions versus 20.9 percent to 37.7 percent at non-doctoral institutions).

Average award trends, however, run exactly opposite for public and private colleges and universities. The inflation-adjusted average grant in the public sector grew far more rapidly at doctoral institutions (80.7 percent) than at non-doctoral institutions (18.1 percent), while the reverse held for private institutions (a 16.4 percent increase for doctoral institutions and a 30.4 percent increase for non-doctoral institutions). This mirrors the analysis of aid expenditures by institutional admissions selectivity, and suggests that public and private institutions have faced somewhat different aid imperatives in the early and mid-1990s.

◆ **Aid by Family Income**–The most illuminating analysis of trends in need-based institutional aid emerges from an examination of aid awarded by the adjusted gross income of the student's family. The percentage of undergraduates receiving need-based grants increased across the income spectrum at both public and private institutions. In both sectors, however, the most dramatic participation increases between 1989-90 and 1995-96 occurred at family income levels of $60,000 or above. [see Figures 5 and 6]

The distribution of need-based grants at public and private institutions also bears this out, as the portion of need-based aid awarded to students with family income less than $20,000 actually declined between 1989-90 and 1995-96, while the portion going to students with family income of $60,000 or above increased. [see Figures 7 and 8] These trends perhaps best illustrate the institutional impact of the 1992 federal changes in need analysis for financial aid.

Non-Need-Based Grants

◆ **General**–For both public and private colleges and universities, the portion of dependent undergraduates receiving non-need-based grants showed little or no change between 1989-90 and 1995-96. [see Figure 9] The inflation-adjusted average award, however, increased significantly in both sectors–85 percent at public institutions and nearly 80 percent at private institutions.

◆ **Aid by Institutional Level**–Receipt of non-need-based aid by type of institution also changed little in either sector between 1989-90 and 1995-96. For public colleges and universities, the change in average award over this period mirrored the trend for need-based awards, with inflation-adjusted growth at doctoral institutions (91.7 percent) exceeding that of non-doctoral institutions (87.2 percent). Private colleges and universities showed a similar trend over this period (an 84.1 percent increase for doctoral institutions and a 77.1 percent increase for non-doctoral institutions), which does not parallel their trends for need-based awards.

◆ **Aid by Family Income**–As with need-based awards, the percentage of dependent undergraduates who received non-need-based institutional grants increased more at higher income levels between 1989-90 and 1995-96. At both pub-

Figure 4

Undergraduates Receiving Need-Based Institutional Grants at Four-Year Institutions, 1989-90 and 1995-96

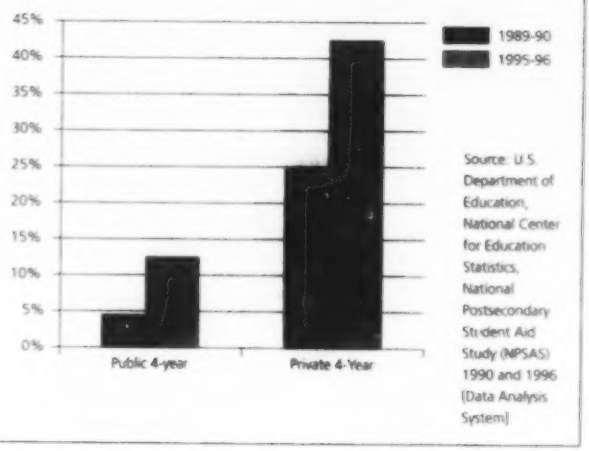


Figure 5

Undergraduates Receiving Need-Based Institutional Grants, Public Four-Year Institutions, 1989-90 and 1995-96
(by adjusted gross income)

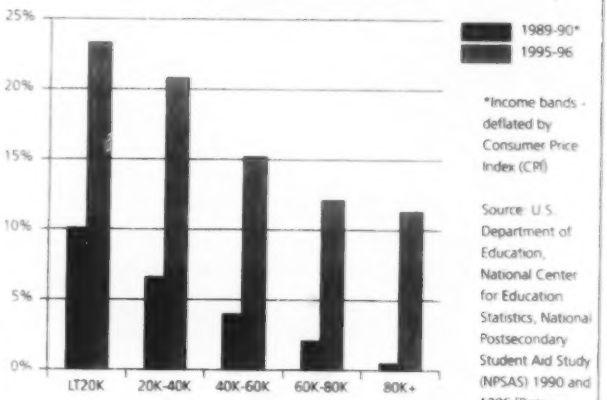


Figure 6

Undergraduates Receiving Need-Based Institutional Grants, Private Four-Year Institutions, 1989-90 and 1995-96
(by adjusted gross income)

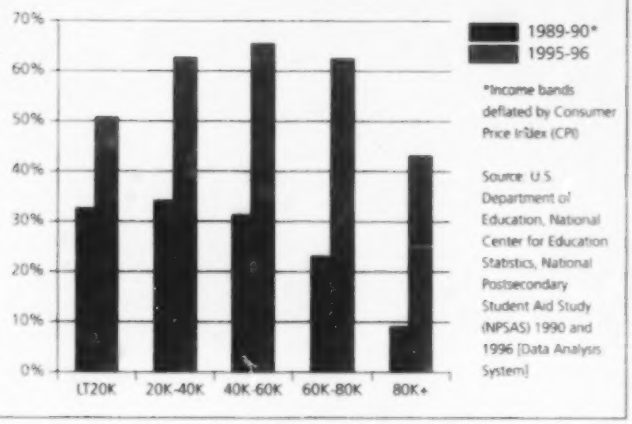
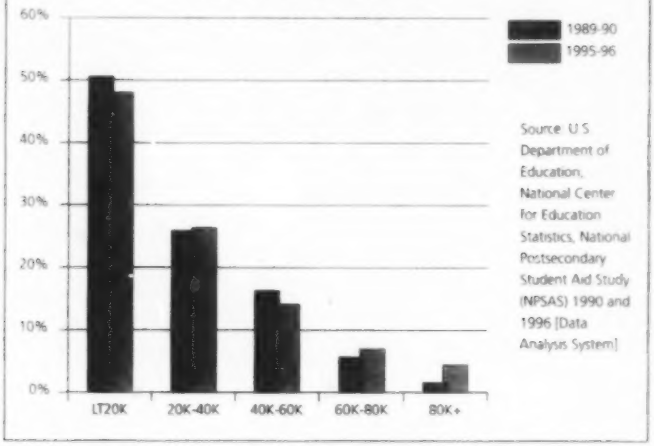


Figure 7

Distribution of Need-Based Institutional Grants, Public Four-Year Institutions, 1989-90 and 1995-96
(by adjusted gross income)



lic and private colleges and universities, the largest participation increases occurred for students with family income of $80,000 or above. Given that overall participation did not increase appreciably, it appears that the change that did occur favored students from middle and upper income backgrounds.[18]

Colleges and universities, following the lead of the federal government, brought more undergraduate students into the financial aid fold during the first half of the 1990s, particularly for need-based awards. A significant number of these new students, however, appear to be from middle- and upper-income families. This trend, coupled with the increased participation of upper-income students in non-need-based institutional grant programs, suggests that colleges and universities (especially those in the public sector) are increasingly being pressed on both the marketing and educational benefit roles for their institutional aid programs. This in turn raises important and potentially difficult policy questions for institutions regarding their aid objectives and the appropriate distribution of their grant and scholarship funds.

Policy Implications

Much of the recent focus on institutionally-funded financial aid has been on private colleges and universities. It is true that these institutions provide the vast majority of aid—according to the IPEDS data, they awarded more than three-quarters of the institutional grants and scholarships in FY96. It is also clear, however, that many public colleges and universities are also greatly increasing the amounts they provide for institutional grants. Spending for institutional scholarships and fellowships by public institutions increased by 72 percent during the 1990s. Like their counterparts in the private sector, aid increases at public institutions have been much greater than increases in spending for instruction, student services, maintenance of college facilities, and other educational and general expenditures. These increases occurred at the same time that Congress changed the need analysis formula to make more students from middle- and upper-income families eligible for aid and reduced, in inflation-adjusted value, appropriations for Pell and other federal grants. Four-year institutions reacted to these changes by distributing a greater share of their aid to middle-income students.

The preceding analysis underscores the point that colleges and universities do not configure or execute their scholarship and fellowship programs in a vacuum. Changes in institutional grants are greatly affected by the choices of federal and state policymakers. As a result, campus leadership must be able to anticipate how current and potential federal and state policy directions may affect their award patterns, as well as how changes in these policies can affect the expectations of potential recipients.

The following developments warrant special consideration in light of the trends described above:

BEST COPY AVAILABLE

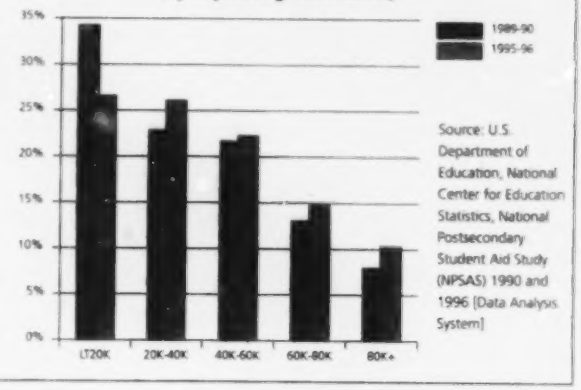
◆ **Redistribution of Need-Based Aid**–Changes in the federal determination of financial need have allowed a greater proportion of more affluent students to qualify for need-based institutional aid. This has helped to shift the distribution of these awards away from students on the low end of the income spectrum and toward students on the high end. For public institutions, this will exacerbate the long-standing tension between the marketing imperatives of attracting the most talented students and public higher education's historical commitment to providing access for academically qualified but economically disadvantaged students. For private institutions, such a distribution raises this tension as well as potentially serious fiscal questions. Because private institutions rely heavily on tuition and fee revenue to fund their institutional aid and general operating funds, providing more aid/tuition discounts to students most able to pay in order to maximize enrollment is becoming a more risky strategy, particularly for smaller, less selective institutions. For all institutions, the combination of this shift and the increased emphasis on loans and merit aid at the federal and state levels raises the question of how the full financial need of the poorest students will be met, particularly if tuition increases continue to exceed the rate of inflation.

◆ **Financial Aid and the Federal Tax Code**–The Taxpayer Relief Act of 1997 contains a number of tax incentives for higher education (Hope Scholarship Tax Credit, Lifetime Learning Tax Credit, and others), thus making the federal tax code a significant player in the delivery of student financial aid. Because these programs are primarily geared toward middle-income families (because they provide greater benefits for families with greater tax liability and no benefits for families with little or no tax liability), states and institutions may experience pressure to pick up the slack for lower-income families, particularly if Pell and other need-based federal grants continue to lose their purchasing power. It is encouraging to note, however, that the maximum Pell grant has been increased at the same time that the tax credits have become available.

◆ **Demographic Trends**–The enrollment profile at American colleges and universities has changed considerably in recent years, and more changes are on the way. During the 1990s, enrollment of students from historically underrepresented groups such as racial and ethnic minorities has increased substantially at public four-year institutions, as has enrollment of students 50 years old and older.[19] Looking into the first decade of the next century, these trends are likely to continue and even intensify. The number of public high school graduates from racial/ethnic minority groups is projected to jump by 75 percent between 1995-96 and 2011-12,[20] and projections of labor force participation to 2006 show an aging workforce.[21] Both projections, if accurate, may mean more demand for aid by students with special circumstances or needs (e.g. first-generation attendees, working adults, etc.). Moreover, the dramatic increase in the number of traditional college-age students (known as the "Baby Boom Echo") may also place extraordinary demands on institutional aid programs.

Figure 8

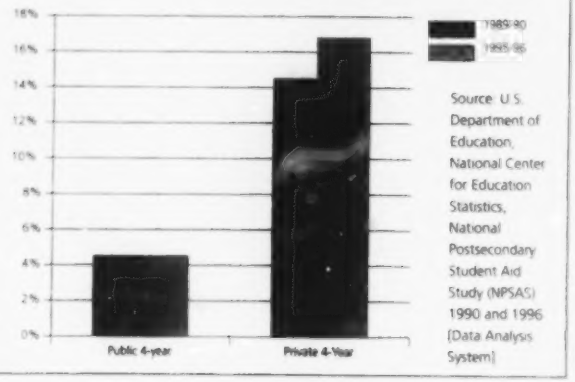
Distribution of Need-Based Institutional Grants, Private Four-Year Institutions, 1989-90 and 1995-96
(by adjusted gross income)



Source: U.S. Department of Education, National Center for Education Statistics, National Postsecondary Student Aid Study (NPSAS) 1990 and 1996 [Data Analysis System]

Figure 9

Undergraduates Receiving Non-Need-Based Institutional Grants at Four-Year Institutions, 1989-90 and 1995-96



Source: U.S. Department of Education, National Center for Education Statistics, National Postsecondary Student Aid Study (NPSAS) 1990 and 1996 [Data Analysis System]

◆ **Pressures to Minimize Increases in Student Charges**–At the same time that enrollment of groups traditionally underrepresented in higher education is expected to increase, the pressure on public and private institutions to contain increases in student charges will mount. Over the past 10 years, inflation-adjusted tuition and fees at public

colleges and universities increased by 53 percent, and by 35 percent at private institutions.[22] According to the National Commission on the Cost of Higher Education, paying college expenses has become one of the greatest financial worries for many Americans. On the other hand, many selective public and private colleges and universities have historically used a portion of their tuition and fee increases to fund their institutional aid budgets. As concerns about cost rise, the ability of higher education institutions to use tuition increases for financial aid may become limited, and institutions may have to find other sources of revenue to provide grant aid. In recent months, several selective private institutions, such as Harvard, Princeton, and Stanford have announced that they will use more of their endowment earnings for grant dollars.[23] Less selective institutions, which generally have smaller endowments, could find it even more difficult to resolve this dilemma.

As the 1990s draw to a close, policymakers and higher education institutions now have the benefit of hindsight regarding one of the most change-filled periods in the history of institutional aid. As a new decade opens, the stakeholders need to draw on this hindsight if they are to understand fully the developments of the past decade and make informed choices about the shape and direction of future aid efforts.

Endnotes

1 The College Board, *Trends in Student Aid 1998* (New York: Author, 1998).

2 Nancy A. Willie, *Institutionally Awarded Aid in Undergraduate Institutions* (New York: SUNY ... Albany, 1986).

3 U.S. Department of Education (National Center for Education Statistics), *Institutional Aid 1992-93* (Washington, D.C.: Author, 1997).

4 David Breneman, *Liberal Arts Colleges: Thriving, Surviving, or Endangered?* (Washington, D.C.: The Brookings Institution, 1994).

5 *Trends in Student Aid*, op. cit.

6 Kenneth E. Redd, *The Effects of Higher Loan Limits and Need Analysis Changes on FFELP Borrowing in Pennsylvania* (Harrisburg, Pa.: Pennsylvania Higher Education Assistance Agency, 1994).

7 National Association of State Student Grant and Aid Programs (NASSGAP), *28th Annual Survey Report: 1996-97 Academic Year* (Albany, N.Y.: New York State Higher Education Services Corporation, 1998).

8 *Trends in Student Aid*, op. cit.

9 American Association of State Colleges and Universities, *1997 Public Policy Agenda* (Washington, D.C.: Author, 1997).

10 *Trends in Student Aid*, op. cit.

11 NASSGAP, op. cit.

12 *The Chronicle of Higher Education*, 1998-99 Almanac Issue, 28 August 1998.

13 Southern Regional Education Board (SREB), *State Funded Merit Scholarship Programs* (Atlanta: Author, 1998).

14 Peter Schmidt and Jeffrey Selingo, "The Outlook for Higher Education in the 50 State Legislatures This Year," *The Chronicle of Higher Education*, 8 January 1999: A35.

15 The institutional aid figures used for this report are drawn from the IPEDS Finance Survey, Part E, Line 6, Institutional Scholarship and Fellowship Expenditures.

16 In FY95, 54 percent of the educational and general revenue for private colleges and universities came from tuition and fee proceeds. Only 22 percent of the education-related revenue for public colleges and universities came from tuition and fee proceeds.

17 Willie, op. cit.

18 U.S. Department of Education (National Center for Education Student Statistics), National Postsecondary Student Aid Study (NPSAS) 1990 and 1996 [unpublished data accessed through Data Analysis System].

19 American Association of State Colleges and Universities (AASCU) and National Association of State Universities and Land-Grant Colleges (NASULGC), *Enrollment Trends at Public Four-Year Colleges and Universities, Fall 1990 to Fall 1996* (Washington, D.C.: AASCU, 1998).

20 Western Interstate Commission on Higher Education (WICHE), *Knocking at the College Door: Projections of High School Graduates by State and Race/Ethnicity 1996-2012* (Boulder, Colo.: Author, 1998)

21 Charles Bowman, "BLS Projections to 2006—A Summary," *Monthly Labor Review* (November 1997).

22 The College Board, *Trends in College Pricing 1998* (New York: Author, 1998).

23 Ben Gose, "Recent Shifts in Aid by Elite Colleges Signal New Push to Help the Middle Class," *The Chronicle of Higher Education*, 6 March 1998: A43; Ethan Bronner, "College Efforts to Lure the Best Set Others Back," *The New York Times*, 21 June 1998.

BEST COPY AVAILABLE